

# **EE-402a Topics in International Technology Management**

**Fall 2006 - Intellectual Property Management for  
Technology Businesses in Asia**

**Today:**

**Setting Up Technology Development  
Operations in China**

# Setting Up Technology Development Operations in China

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ThermaClear  
Acne  
Treatment

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# DermaCare Mission



Developing medical and cosmetic treatments for the direct to consumer and retail channels.

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# ThermaClear

## Device Based Acne Treatment



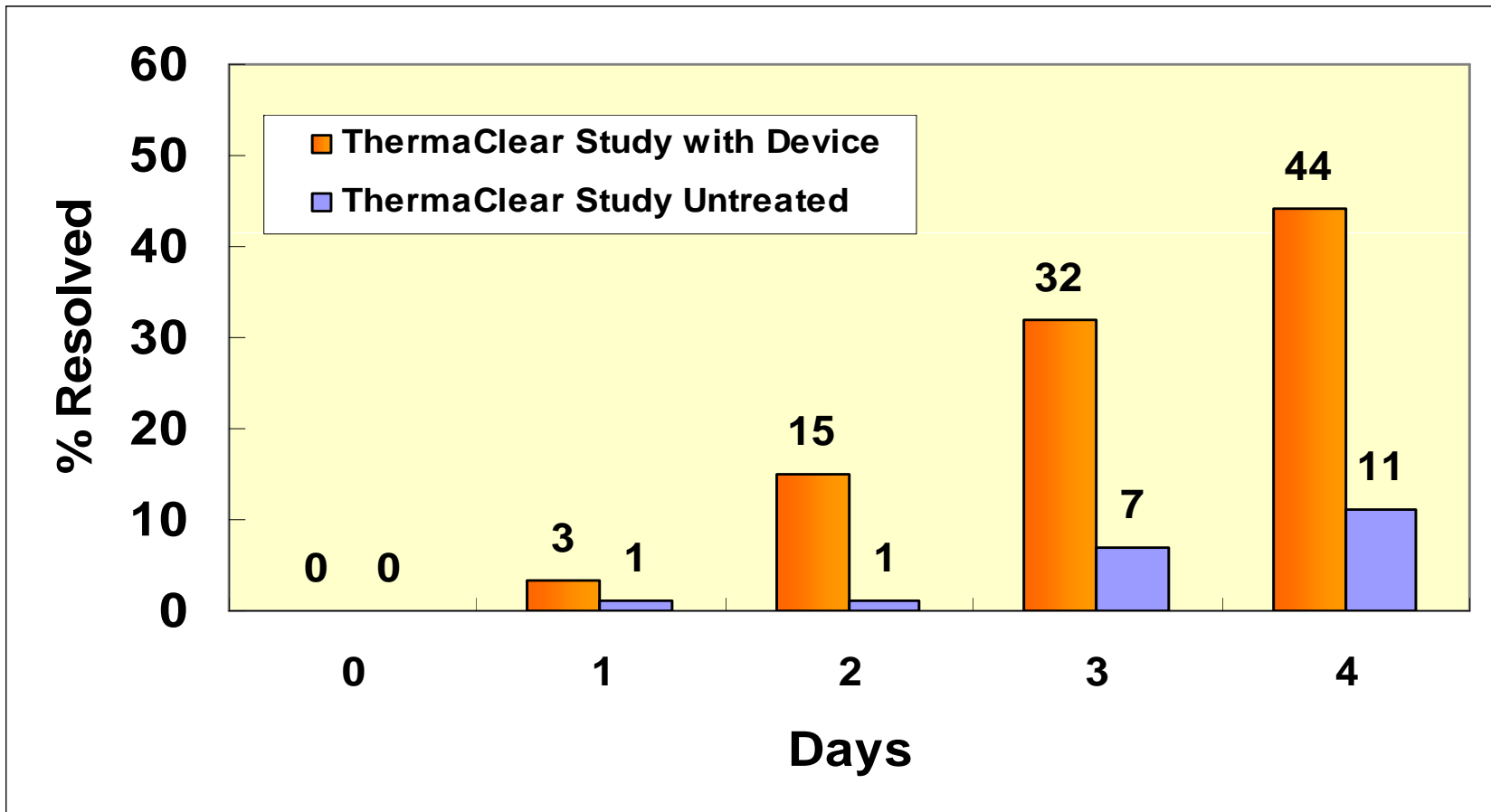
- Patented technology
- High heat
- Short duration
- No burning / discoloration
- Mechanism:
  - Anti-inflammatory response?
  - Heat shock proteins?

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# Clinical Results

## Pimples Resolve in 2 – 4 Times Faster



\* Or, "two to four times faster"

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# WHY CHINA?

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- ☐ Low costs
- ☐ Qualified scientists and engineers
- ☐ Large market and manufacturing capacities
- ☐ Low corporate tax
- ☐ Government incentives
- ☐ Adequate infrastructure

# WHY NOT CHINA?

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- ☐ Political and economic instability
- ☐ Lack of rule of law
- ☐ Lack of IP protection
- ☐ Government interference
- ☐ China's trade relationship with other countries
- ☐ Discrimination against foreign companies
- ☐ US export controls



# ThermaClear in China

## Low Cost, But with IP Risk

- China obvious source for manufacturing
  - Low cost – tooling and per unit
  - Readily available materials
  - Scalable volumes and costs
- Clear risks
  - “Back door” production
  - Reverse engineering / design theft
  - Counterfeiting
  - Trademark theft

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# ISSUES

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- ☐ Form of company
- ☐ Location
- ☐ Employees
- ☐ IP protection
- ☐ U.S. export controls
- ☐ Chinese export controls
- ☐ Tax law
- ☐ Land and facilities

# FORM OF COMPANY

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- ☐ Representative office
- ☐ Branch office
- ☐ Joint venture
- ☐ Wholly foreign owned enterprise

# FORM OF COMPANY

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- ☐ Legal activities of a representative office
  - ☐ Market research
  - ☐ Business promotion
  - ☐ Facilitate business transactions
  - ☐ No capitalization requirements

# FORM OF COMPANY

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- ☐ Branch office
  - ☐ Similar to parent company's sales and marketing department in China
  - ☐ Permitted to engage in commercial activities
  - ☐ Subject to onerous capitalization requirements

# FORM OF COMPANY

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- ☐ Joint venture
  - ☐ Relatively long application process
  - ☐ Independent legal entity
  - ☐ Required in some sectors

# FORM OF COMPANY

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- ☐ Wholly foreign owned enterprise
  - ☐ Full management and operational control
  - ☐ Greater IP protection
  - ☐ Continuity of operation

# LOCATION

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- ☐ Coastal areas v. interior areas
- ☐ Large cities v. small cities
- ☐ Availability of qualified engineers and managers
- ☐ Government subsidies
- ☐ Infrastructure



# EMPLOYEES

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## ☐ Employment Law

- ☐ Written employment contract
- ☐ Term of employment
- ☐ Confidentiality
- ☐ Termination
- ☐ Length of workweek, overtime, and holidays
- ☐ Disciplinary actions
- ☐ Dispute arbitration

## ☐ Assignment of IP rights

- ☐ Patent ownership under Patent Law

## ☐ Confidentiality agreement

## ☐ Non-compete agreement

- ☐ Two-year limit
- ☐ Compensation

# IP PROTECTION

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## FORMS OF INTELLECTUAL PROPERTY

- ☐ Patents
- ☐ Trademarks
- ☐ Copyrights
- ☐ Trade secrets
- ☐ Knowledge and experience

# IP PROTECTION

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- ☐ Registration of IP rights
- ☐ Contractual protection
- ☐ Technical controls and access
- ☐ Monitoring use and misuse of IP
- ☐ Enforcement

# IP PROTECTION

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## REGISTRATION OF IP RIGHTS

### ☐ Patents

- ☐ Invention patents
- ☐ Utility models
- ☐ Industrial designs

### ☐ Trademarks

- ☐ Well-known marks
- ☐ Registered marks

### ☐ Copyrights

# IP PROTECTION

## CONTRACTUAL PROTECTION OF IP RIGHTS

- ☐ Controls packaging and labels
- ☐ Requires that rejects be destroyed
- ☐ Prohibits diverted product and overproduction from getting in the marketplace
- ☐ Prohibits or limits subcontracting
- ☐ Addresses post-termination treatment of technology
- ☐ Allows for IP and technology audits
- ☐ Limits access to technology
- ☐ Binds employees and anyone with access
- ☐ Prohibits Chinese party from registering IP rights

# IP PROTECTION

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## TECHNICAL CONTROLS AND ACCESS

- ☐ Carefully select business partners and employees
- ☐ Disclose only necessary information in technical specifications and manuals
- ☐ Limit access to technology on need-to-know basis
- ☐ “Don’t put all your eggs in one basket”
  - ☐ Compile source code in U.S.
  - ☐ Keep design, manufacturing, supply, repair and maintenance of key components in U.S.

# IP PROTECTION

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## MONITORING USE AND MISUSE OF IP

- ☐ Competing products
- ☐ “Your own” products
- ☐ Competitors
- ☐ Your business partners
- ☐ Your own employees
- ☐ IP rights registered by your competitors, customers, partners and employees

# IP PROTECTION

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## ENFORCEMENT

- ☐ Enforce your IP rights!!!!
- ☐ Courts
  - ☐ Generally fair and efficient courts
  - ☐ Competent judges
  - ☐ Insufficient monetary damages
- ☐ Enforcement of court judgment
  - ☐ Difficult to enforce court judgment against small companies and individuals
  - ☐ Generally adequate enforcement against large companies



# Protecting China Development Efforts

- Areas of China Development

- Supply chain management and specification
- Product design
- Tooling
- Manufacturing process design & engineering

- Protection - balance legal with business


- Contractual clauses
- Limiting scope vs. functioning partnership
- Right partner

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## Protecting IP: Pick Right Partner(s)

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- Trusted manufacturer
  - Focus on reputation, not lowest cost
  - Large US and Euro customer base
  - Strong IP protection processes
  - Hong Kong company, China operations

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# Plan for Success, Prepare for Action

- Stateside
  - File trademarks USPTO
  - Register with Customs
- China & Hong Kong – first to file!
  - File patents
  - Register trademarks in English and Chinese
  - Register designs
- Invest in vigilance

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# U.S. EXPORT CONTROLS

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- ❑ Export license is required for *export* of certain *items* to certain *users* for certain *uses* in certain *countries*
  - ❑ **Export:** mail, facsimile, upload or download, email, and telephone conversion
  - ❑ **Items:** commodities, software, technology, and information
  - ❑ **Penalties:** administrative, civil, and criminal penalties for non-compliance

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# THANK YOU!